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Priced out: Bozeman housing market hits young professionals hard

By Eric Dietrich, Chronicle Staff Writer

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Ali Vasarella hopes she can raise a family in Bozeman.

An architect-in-training with a master's degree from Montana State University, she and her husband, a carpenter, chose to move back here after spending a couple of years in Portland, Oregon, after her graduation.

"We love the people," she said. "We love the outdoor opportunities available to us. We love the open air and blue skies."

She's working at her dream job.

But then there's the cost of housing.

Her family — which includes her twin 14-month-old children and a cat — is stuck in a one-bedroom, 540-square-foot apartment, Vasarella said. It's where they've lived since before she found out she was pregnant.

They've been looking for something bigger for almost two years, she said. They've asked around, browsed Chronicle classified ads and searched online without any luck.

The one call they've gotten back was from someone looking to rent a mobile home with a 6-foot by 6-foot second bedroom

and "no insulation to speak of."

More common was an email explaining the landlord was swamped with applications, or they received no reply at all.

They took a home buyers' class offered through the Human Resource Development Council but found out her and her husband's combined income — about \$78,000 last year — was too much for them to qualify for home-buying assistance programs.

"We're not being picky," Vasarella said — they just want to find a two-bedroom with a washer and dryer for less than \$900 a month with a landlord who will tolerate the cat.

"I feel like the town I love ... is pushing me out," she said.

As Bozeman's economy and university boom, Vasarella's story isn't a rare one.

Faced with mounting public frustration over housing costs, the Bozeman City Commission will debate how to tackle the affordability issue in the coming weeks and months, beginning with a presentation Monday evening by consultant Daniel Werwath, who has spent the past several months studying the community's situation.

However, despite the Werwath study's findings, it's unclear how — or whether — the tools available to local government can pull the housing market's interlaced web of economics, regulation and community values toward affordability without stretching its strands to the point of failure.

'We'd rent for the rest of our lives'

A request for comments on housing affordability posted to the Chronicle's Facebook page this month produced a flood of replies and emails.

Many called the city's housing situation a "crisis," and said they are finding themselves forced to seek housing in nearby towns like Belgrade or they consider leaving the area entirely.

"My income puts me, by national standards, right in the middle class, and I cannot afford to live without roommates at 27 years old," wrote resident Shana Butterworth. "And buy a house? As an unmarried woman without a trust fund? Hahahaha."

Another woman, Whitney Rae, emailed to say she and her fiance, an industrial machinist, are planning to move to Wyoming after she finishes a master's degree in financial planning at MSU.

"We don't live out of our means, and we don't have extravagant taste," she wrote. "We'd just like a few thousand square feet and a garage and a dishwasher."

"We don't have a choice but to move somewhere where our wages will be able to buy us a future and a house," she continued. "Without a significant cost of living increase in both of our salaries — we'd rent for the rest of our lives."

"We will miss this place terribly," she added, "but cannot afford to build a life in Bozeman."

What is affordable?

The Werwath study attempts to pin down Bozeman's housing situation with a statistical model focused around the concept of area median income, or AMI. It also relies on a widely used standard that classifies housing as affordable if it costs 30 percent or less of a family's total income.

AMI levels are calculated by the U.S. Department of Housing and Urban Development for different parts of the country and different household sizes. The Bozeman-area AMI for a family of three is \$64,000, for example, and the median income for a family of four is \$71,100.

Applying the 30-percent standard, that means the median family of three can theoretically manage up to \$19,200 annually in rent or mortgage payments, equivalent to \$1,600 a month.

As part of his study, Werwath analyzed Bozeman's housing market to determine how different income ranges, defined as a percentage of AMI, generally fare in the city's for-sale housing market.

Detached single-family homes, he found, are theoretically affordable only for families making at least the median income. According to his calculations, the three-person family making \$64,000 a year should be able to afford a mortgage on a home worth \$283,000.

According to Werwath's report, that means buying a detached home on the open market is essentially out of reach for 6,530 families — three-quarters of the 8,741 households currently renting in Bozeman.

Townhomes at the market rate, he found, are typically affordable further down the income spectrum, starting with families making about 80 percent of AMI, or \$51,250 for a three-person household. About 567 of the city's renting households are, statistically speaking, in a position to afford townhomes but not detached homes under current market conditions.

While the statistical model has its limits (Vasarella's family, for example, would be classified at above-median income) it does provide a framework for understanding the issue — and discussing where along the income distribution, if anywhere,

the city should target assistance.

"It's a way of understanding incomes in a community," Werwath said. "It's used in almost every community that has affordable housing programs."

A tightening home market

One thing that is crystal clear from the numbers is that the supply of low-priced homes in Bozeman isn't growing.

About as many detached homes were sold in Bozeman for over \$250,000 as under in 2012, Werwath found. Last year, however, under-\$250,000 homes represented less than a fifth of detached home sales — and only eight single-family homes were sold for less than \$200,000.

Additionally, while more than 80 percent of townhomes sold in 2012 were priced below \$200,000, the proportion dropped to less than 60 percent in 2014.

"Homes affordable to low- and moderate-income buyers are dwindling at an alarming rate," Werwath concluded, "and this decline is particularly acute for detached homes."

While he doesn't examine it in his study, data from the Gallatin Association of Realtors also reveals a substantial home price disparity between Bozeman and surrounding communities.

The median sale price last year for detached homes in the Bozeman area, for instance, was \$325,250. The median price in the Belgrade area, in contrast, was over \$100,000 less — \$223,000.

Who's priced out?

While available housing data isn't broken down by family age, it appears anecdotally that young professionals — particularly those starting families — are bearing the brunt of the housing crunch.

While conducting a survey as part of his research, Werwath said he heard many comments from young professionals saying they were getting priced out of the market and were considering leaving unless things change.

"Which is a scary prospect," he said, noting that young professionals are the community's future leaders and businesspeople.

"Home ownership creates buy-in in a community in a different way than rentals do," he also said, explaining that renters

tend to have a more transient connection to their communities.

While the 30 percent affordability threshold and some back-of-the-envelope math indicate a twenty-something Bozemanite making \$20,000 a year can probably scrape by with roommates and \$500-a-month rent, the economics become starker as privacy or children become priorities.

The median price for two- and three-bedroom rentals listed on Craigslist as of Feb. 2, for example, was \$1,275, according to a Chronicle analysis. Under the 30-percent-of-income criteria, that's affordable only for families making at least \$51,000 a year.

For equivalent Bozeman-area rentals outside city limits, the median rent was \$835 a month, affordable at income levels of at least \$33,400 a year.

Contrary to assertions made at times by city leaders, it's not entirely clear that public servants like police officers and firefighters are included in the ranks of those priced out of Bozeman.

According to estimates provided by Bozeman's police and fire chiefs, 22 of 59 officers and three or four of 47 firefighters live within city limits.

However, Fire Chief Jason Shrauger said he thinks the pattern for firefighters is more a matter of personal choice than a pattern driven by financial necessity. Interim Police Chief Rich McLane said some of the pattern with officers was based on a desire to live in a more rural setting or a particular school district while some decisions, especially for younger officers, were based on affordability.

Base pay for Bozeman firefighters with five years of experience is \$60,467 a year. For police officers, it's \$56,785.

A similar residency count for Bozeman School District teachers wasn't readily available this week.

What can be done?

Werwath, the consultant, proposes what's known as an inclusionary zoning ordinance — essentially the city mandating that developers and builders proposing new residential projects include a proportionate number of units within the affordability criteria.

Specifically, he suggests the city should require developers to either price 10 percent of new units at prices affordable to families at 70 to 80 percent of AMI or make 30 percent affordable to families at median income — price levels he estimates at \$198,000 and \$255,000, respectively, for three-bedroom homes.

He also proposes incentives to encourage affordable housing development, including work by nonprofits like HRDC and Habitat for Humanity, targeted at lower income groups and affordable rental projects.

While the incentives proposed by Werwath could defray the losses resulting from building and selling homes at below-market rates, members of the construction industry are skeptical of the inclusionary zoning approach, saying it would likely force them to raise the prices of other homes so they can subsidize a comparatively small number of residences.

Instead, they say, they'd like to see the city focus on re-thinking regulatory policies that increase the costs involved in bringing homes to market.

"Those costs are real," said Brian Popiel, the board chairman of the Southwest Montana Building Industry Association. "It turns out that everything we do is expensive."

Popiel said he was struck recently when visiting a lower-cost housing development in another city by how houses were built on smaller lots with smaller yards and "a lot less curb and gutter."

Bozeman's development code, in contrast, emphasizes trails, parkland and walkability — things that drive up the cost of empty lots by limiting the proportion of empty land that can be platted for homes.

Plenty of the city's building requirements are good ideas, Popiel said, "but none of them are free."

"Wal-Mart sells an awful lot of affordable things," he said. "We're expecting high-end products for Wal-Mart prices out of this."

Werwath accepts the necessity of offsets to avoid placing the entire cost of affordability mandates on the construction industry, saying it's important to avoid unintended consequences like chilling home construction or pushing it outside city limits.

He's skeptical that Bozeman's housing code is inordinately burdensome compared to other places or that changes would help.

"There's not a lot of room to change the embedded costs in housing developments," he said. "Unless you went to a totally deregulated model."

For her part, Vasarella — whose lone family bedroom is partitioned with cardboard to separate dueling cribs from her and her husband's mattress — wishes she had more space for her toddlers.

"They're climbing, so it's hard to keep them contained," she said.

She's gotten to the point of giving up on the Bozeman rental market the last few months, saying that everything available seems to be targeted at college students.

Her family is considering searching for a townhouse, but would like to have a yard. They could also look in Manhattan, where they have family, but that would mean accepting a commute.

For now, though, she said, "we're making what we found years and years ago work."

"There's always," she added, "the possibility of just moving somewhere else."